Board Behaviour

In an information age of global and instant connectivity, the behaviour of business leaders is the subject of continuous scrutiny from all stakeholders. There is nowhere to hide.

Anna Bateson, subject expert on strategic change and leadership for The IoD's Certificate and Diploma in Company Direction, explores how leadership responsibilities and pressures affect every director.

Values violators are pilloried in public and businesses struggle to manage perception, even when it is not grounded in fact. Reputations which may have taken decades to build can be destroyed in a moment, with immediate bottom line impact.

The Government response has been a plethora of legislation and regulation, which appears to have created a culture of compliance rather than a spirit of Corporate Governance. Some business leaders are more concerned with ticking boxes rather than embedding good practice. While the challenges of the current global operating environment cannot be solely laid at the door of business, questions are being asked about the judgement exercised by many boards in relation to risk and their behaviour towards stakeholders.

If boards are to generate wealth in a way which is perceived to be fair by their stakeholders, they need to ensure that business principles/values inform strategic decision making and board behaviour. Business leaders increasingly recognise that it is their decisions, evidenced in their words and actions, which create the prevalent culture. Consistency builds trusted stakeholder relationships along the value chain, which produces enhanced business performance. Sustaining momentum requires active and continuous principled leadership.

A high profile example of abusing stakeholder trust is the case of MG Rover and Phoenix Venture Holdings. PVH are described this month in the press as 'Corporate Rapists,' the four owners are deemed to have 'taken a gullible Government and worried workforce for a £45m ride,' but disqualification orders may be the only result of the £16.3m, 850 page report into the collapse of MG Rover in April 2005. The Phoenix Four may have behaved in a way which is deemed unprincipled by their stakeholders, but they have been cleared of any illegality or breach of fiduciary duty. Nonetheless, the Business Secretary, Lord Mandelson, is determined to learn lessons about creating decision making transparency.

The value placed on principled leadership, is not always recognised in share price, until the business is under some form of threat. Cadbury Schweppes is lauded as a ‘principled organisation’ with values based on those promoted by their Quaker founders. CEO, Todd Stitzer, shares the message that effective organisations are ‘performance driven and values led,’ placing a heavy emphasis on the need for business leaders to communicate the behaviour which is acceptable and evidence it in all their decisions and actions.

As the subject of speculation following the recent takeover offer from Kraft Foods, the value of Cadbury Schweppes is being debated by all stakeholder groups. Even institutional shareholders recognise the brand values and heritage of Cadbury as rare and seek assurances that Kraft will be a ‘good steward’ if they are successful in their takeover bid. Chairman, Roger Carr, argues that Kraft has fundamentally failed to reflect the true value of Cadbury in their bid.

The cost of not behaving in a way which is deemed consistent with espoused principles became evident for Cadbury in 2006/7, with the Salmonella contamination of chocolate bars costing the business over £20m. Stakeholders may forgive sins but not subterfuge and Cadbury paid the price for a lack of transparency. Interestingly, marketing experts highlight that while reputational damage occurred, the brand remained resilient.

Jack Welch, ex CEO of GE, promotes the belief that you do more to reinforce your organisational values by publicly removing high performance values violators from your organisation and explaining why. He characterises ‘managers’ on the basis of their ability to produce business results and role model the espoused values.

> Type one managers visibly role model the business values and deliver performance. They should be retained.
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> Type two managers have neither the values nor the ability/inclination to deliver and should be removed from the business.
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> Type three managers role model the values but have trouble performing. Welch recommends that they are supported and ‘given a second chance to perform.’

> Type four managers provide the greatest challenge for businesses, not least when they exist at Board level. These individuals produce business results but do so in a way that directly contravenes the espoused values. Their continued presence in the business negates any values messages being promoted by the Board.

Since the Chairman’s nature and motivations are largely responsible for determining Board behaviour, personal bravery is called for in addressing type four Directors and avoiding personal aggrandisement and Machiavellian game playing.

To ensure they are formulating strategy with effective decision making and leading implementation in a principled manner, wise boards are reviewing how they really operate and investing in their own development in order to improve their performance.

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